

PHILIPPINES ECONOMIC WRAP-UP

JULY 07 - 13, 2001

Summary

The peso depreciated further this week, stock prices and volumes continued to languish, and T-bill rates moved up. We also report on the most recent statistics on job losses (bad news for an economy already suffering from high unemployment); the sales slump in the automotive industry; and the latest foreign debt figure (which declined quarter-on-quarter). Meanwhile, a commercial bank that was placed under receivership in April 2000 is in the final stages of reopening (hopefully by August), and recent weeks have seen an increasing focus on anti-money laundering legislation. End summary.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our June 2001 Economic Outlook, which is also available on our web site.

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FOREX REPORT

The local currency began to weaken mid-week after a brief two-day respite, hitting a new five-month, intra-day low of P53.40/US\$ on July 12. Traders cited the absence of any uplifting regional and domestic news, third quarter import demand, limited new foreign exchange inflows, and lingering political anxieties. According to a number of foreign exchange traders, some clients also continue to buy forward requirements from the spot market on expectations that the currency will weaken further. The Bangko Sentral has been prodding banks to "market" the BSP's "Currency Risk Protection Program" (CRRP, a non-deliverable forward hedging facility) to ease pressure from the spot market, but the response reportedly has been weak. The peso ended at P53.170/US\$ on July 13, down 0.5% from July 6's P52.890 closing level.

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
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JUN 04	50.800	50.765	103.5
05	50.645	50.590	121.7
06	50.643	50.720	143.0
07	50.762	50.710	85.2
08	50.803	50.910	128.1
JUN 11	51.079	51.190	181.0
12	Markets Closed		
13	51.326	51.310	191.0
14	51.309	51.360	105.6
15	51.479	51.590	122.4
JUN 18	51.819	51.975	141.5
19	52.282	52.320	109.5
20	52.071	52.010	233.8
21	52.101	52.200	122.5
22	52.281	52.210	74.5
JUN 25	52.252	52.265	54.9
26	52.307	52.270	91.5
27	52.308	52.295	55.3
28	52.366	52.370	101.5
29	52.428	52.395	96.0

JUL 02	52.612	52.700	93.0
03	52.905	52.940	113.5
04	53.025	52.930	145.5
05	52.965	52.980	111.1
06	52.901	52.890	73.5
JUL 09	52.863	52.835	71.6
10	52.910	52.950	68.0
11	53.023	53.065	76.7
12	53.246	53.080	119.0
13	53.186	53.170	46.0

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

June's higher year-on-year inflation figure (6.7%, reported in the Embassy's July 6 wrap-up) pushed up bid rates further for all maturities at the Bureau of Treasury's weekly T-bill auction on July 9. The longer-term 182-day and 364-day tenors were both oversubscribed -- which some analysts attributed to pent-up demand following the previous two weeks' undersubscriptions and Treasury rejections. This time, the Treasury fully awarded the P4 billion weekly T-bill volume scheduled for sale. The average rate for the P1 billion worth of 91-day bills inched up by 7.9 basis points week-on-week to 8.849%. The average rate for the P1.5 billion worth of 182-day bills sold inched up by 23 basis points to 10.172%; and that for the P1.5 billion worth of 364-day bills by 19.8 basis points to 11.419%. Analysts expect rates to move sideways with a stronger upward bias in the near-term, depending on foreign exchange rate and fiscal developments.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
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MAY 21	9.306	10.750	11.352
MAY 28	9.037	10.087	11.307
JUN 04	8.913	9.839	10.792
JUN 11	8.729	9.700	10.823
JUN 18	8.653	9.780	10.965
JUN 25	8.728	no sales	11.092
JUL 02	8.770	9.942	11.221
JUL 09	8.849	10.172	11.419

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
MAY 31	12.8919	10.25 - 14.037
JUN 07	12.7849	10.00 - 14.000
JUN 14	12.8122	10.00 - 14.000
JUN 21	12.7828	10.00 - 14.000
JUN 28	12.6328	10.00 - 13.728
JUL 05	12.5638	10.00 - 13.770
JUL 12	12.5837	10.00 - 13.849

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

Despite occasional bargain hunting, the Philippine Stock Price Index (Phisix) declined somewhat this week on dwindling volumes. The Phisix closed at 1396.30 on July 13 from July 6's 1396.92 closing level.

Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
JUN 04	1412.45	2394 /b
05	1392.71	597
06	1389.52	490

07	1406.65	405
08	1410.50	650
JUN 11	1435.77	682
12	Markets Closed	
13	1462.66	943
14	1474.11	799
15	1479.30	749
JUN 18	1470.92	393
19	1448.73	474
20	1449.45	415
21	1444.17	547
22	1439.77	1,093
JUN 25	1424.52	1,093
26	1423.44	521
27	1415.73	479
28	1414.79	436
29	1410.07	2,972 c/
JUL 02	1395.79	543
03	1392.07	464
04	1385.99	525
05	1402.23	464
06	1396.92	278
JUL 09	1405.39	346
10	1397.66	447
11	1390.10	284
12	1399.42	289
13	1396.30	208

a/ includes P6.57 billion block sale of Pure Foods to San Miguel Corporation

b/ about P2 billion accounted for by trading of blue-chip Philippine Long Distance Telephone Co. (PLDT) shares (reportedly on news of a debt restructuring plan forged with creditors by PLDT's struggling subsidiary Piltel)

c/ includes P2.4 billion cross transaction in relation to Globe-Islacom merger

Source: Philippine Stock Exchange

BUSINESS CLOSURES/RETRENCHMENTS ON THE RISE

According to the Dept. of Labor and Employment (DOLE), 937 establishments either permanently closed shop or reduced their work force during the first four months of 2001, up by 6.5% year-on-year. Another 193 enterprises also resorted to temporary layoffs, reduced work hours, and job rotations during the period. Affected workers totaled 40,104 which, while 7.6% less than in the previous year, provides little consolation for an economy already suffering from high unemployment. The DOLE's first two quarterly surveys this year (conducted in January and April) showed the average unemployment rate at over 12%.

Various business groups expect lethargic domestic and export prospects -- as well as deliberate, strategic efforts to streamline operations -- to spell more job displacements in coming months. Economic officials and the business sector have warned that a legislated P125 across-the-board increase in minimum daily wage rates being pushed by militant labor groups -- which, for Metro Manila, translates to a 50% increase -- will aggravate business difficulties, trigger more job losses, render Philippine labor uncompetitive, and affect overall macroeconomic stability. The clamor for minimum wage adjustments followed two rounds of domestic fuel price increases this year (late May and early July).

VEHICLE SALES SLUMP

Economic uncertainties and lingering political anxieties held back vehicle purchases during the first half of the year, according to the Chamber of Automotive Manufacturers of the Philippines (CAMPI). CAMPI reported that June 2001 industry sales (measured in number of units) slumped 14.3% year-on-year. Cumulative first semester sales dropped by 14.8% from 2000's comparable six-month level. The passenger car segment has been especially hard-hit with June 2001 sales off by 27.5% year-on-year and year-to-date sales by 27.6%. Sales of commercial vehicles -- which mustered modest increases in 1999 and 2000 -- also have not been spared thus far from weaker demand. Automotive firms sold 6% less units of

commercial vehicles than in June 2000 and year-to-date sales fell by 7.4% from 2000's comparable six-month level.

 AUTOMOTIVE INDUSTRY SALES

	(No. of Units)		
	2000	2001	% Growth
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June, Total	7,498	6,427	(14.3)
Passenger Cars	2,890	2,096	(27.5)
Comm'l Vehicles	4,608	4,331	(6.0)
Jan-June, Total	41,523	35,379	(14.8)
Passenger Cars	15,264	11,050	(27.6)
Comm'l Vehicles	26,259	24,329	(7.3)

 Source: Chamber of Automotive Manufacturers of the Phil.

UPDATE ON PHILIPPINE EXTERNAL DEBT

According to the latest quarterly estimates, the Philippines' outstanding external debt (based on foreign credits approved by and/or registered with the Bangko Sentral ng Pilipinas) stood at \$49.9 billion as of March 2001. That level represented a 4% (\$2.1 billion) decline from end-2000's \$52.1 billion level -- reflecting net repayments of foreign loans, as well as \$1.4 billion in revaluation adjustments resulting from a weaker yen. Public sector obligations represented about two-thirds of the total external debt.

Medium and long-term loans (which the BSP estimated had a weighted average maturity of 17 years) constituted the bulk (89.6%) of the Philippines' outstanding foreign credits. Almost half of total external obligations were owed to "official" creditors (defined as foreign governments and their export credit agencies, as well as multilateral financial institutions), generally obtained at more concessional terms than other types of foreign financing.

Gross international reserves (\$14.6 billion as of end-June 2001) stand at about 2-1/2 times the level of outstanding short-term external obligations. While manageable, BSP officials expect the country's debt service burden (measured as the ratio of debt service payments to goods and services exports) to rise in 2001 (vis-à-vis 2000's 12.3% figure) due to both higher debt service outlays and weak export receipts. First quarter statistics placed debt service payments at 15.8% of total export revenues.

URBAN BANK'S NEW MANAGEMENT BATS FOR AUGUST REOPENING

The Philippine Deposit Insurance Corp. (PDIC), BSP, and Securities and Exchange Commission (SEC) approved-in-principle the rehabilitation proposal of Export and Industry Bank (Exportbank) for Urban Bank (a commercial bank placed under PDIC's receivership in April 2000 after being hit by heavy withdrawals). Regulatory approval paved the way for the signing of a Memorandum of Agreement (MoA) between PDIC and Exportbank on July 12 (followed by a "ceremonial" signing in Malacanang Palace on July 13). Export Bank, together with Urban Bank's association of creditors and depositors, submitted the lone rehab proposal for Urban Bank last April (after an earlier proponent -- Bank of Commerce -- backed out of a practically done deal at the last minute). PDIC required a P30 million bond this time around to discourage rehab proponents from backing out of the deal -- which Exportbank has complied with.

The official turnover of the closed bank to Exportbank -- targeted in August -- will depend on fulfilling certain "deliverables." PDIC officials described the remaining requirements as mostly "ministerial" -- with the exception of an agreement which Exportbank has yet to finalize with Urban Bank's interbank creditors (involving an estimated P1.5 billion). PDIC officials expressed confidence that such an agreement would be forged soon. Exportbank has already reached agreement with depositors and creditors on repayment/pay-out terms. PDIC, for its part, is expected to release P430 million to cover Urban Bank's insured deposits (which eventually will be repaid). It has also agreed to provide a P1.5 billion standby credit facility (which would be available, if

needed, on the second year after Urban Bank's turnover to Exportbank) in case of unexpected heavy withdrawals and other cash flow problems triggered by exogenous circumstances.

LEGISLATORS GET ON ANTI-MONEY LAUNDERING BANDWAGON

The Paris-based Financial Action Task Force's (FATF) suggestion for member countries/territories to explore stronger countermeasures for the Philippines (and two other countries) by end-September 2001 in the absence of legislative reforms to combat money laundering (Manila 3779) has triggered something of a flurry among legislators. Over the last two weeks, four senators and a congressman announced that they had filed their respective anti-money laundering bills for consideration by the newly-elected Twelfth Congress (which convenes on July 23).

None of the bills filed thus far represent the administration-endorsed bill that President Macapagal-Arroyo said she would certify as a legislative priority. Intended as a product of broad consultations, an inter-agency, multi-sectoral group is working to finalize anti-money laundering legislation to forward to Malacanang before President Macapagal-Arroyo delivers her first State of the Nation Address (and the new Congress officially opens) on July 23.